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Universitat de València - ERI POLIBIENESTAR.
Edificio Institutos-Campus de Tarongers. Calle Serpis, 29. 46022. Valencia.
Phone: (+34) 96.162.54.12– C.I.F. Q4618001-D
Email: espanet2011@uv.es

Shifting the Public-Private Mix: A New Dualization of Welfare?

Martin Seeleib-Kaiser, Adam M. Saunders, and Marek Naczyk

Oxford Institute of Social Policy

University of Oxford

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Abstract

Welfare dualism has always been a part of social protection arrangements in Liberal and Conservative welfare systems. Whereas Liberal welfare systems relied predominantly on means-tested policies for the poor and a combination of public and occupational welfare for the middle class, Conservative welfare systems provided social insurance benefits for workers and means-tested benefits for the poor. Although institutional welfare dualism was particularly evident in Liberal welfare systems, the proportion of social protection outsiders declined during the era of industrial welfare capitalism as more workers became entitled to occupational welfare. In Conservative welfare systems social insurance became more encompassing, making these systems nearly universal. With the onset of post-industrial welfare capitalism since the mid-1970s, however, the processes were reversed, leading to higher proportions of social protection outsiders within the workforce. These processes become fully evident only if we account for trends in both public and private social protection. Our analysis focuses on developments in France, Germany, the United Kingdom and the United States.

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Keywords: welfare dualism, occupational welfare, private social policies, unemployment insurance, pensions, healthcare access, France, Germany, United Kingdom, United States.

Introduction

The concept of dualization poses a significant challenge to established approaches of social policy analysis, as much of the *comparative* political economy literature has focused its attention on differences in state welfare between countries (see e.g. Esping-Andersen 1990; Estévez-Abe 2001; Iversen 2005; Pontusson 2005). In place of the one dimensional notion of *welfare states*, we introduce the concept of *welfare systems* (cf. Seeleib-Kaiser 2001; 2008), which incorporates both public *and* private social protection thereby giving a clearer picture of the extent of dualism within countries and a potential dualization of social protection over time. Critical welfare state analyses, focusing on single nation states, have highlighted the concept of "dual welfare systems" whereby policies for the poor were historically differentiated from policies for workers (Tussing 1975; Liebfried and Tennstedt 1985; Weir et al. 1988). Yet, this literature largely neglected social policy provision through the market, i.e. mainly employer-provided, occupational social policies, which could result in an even more profound bifurcation or division of welfare, as already noted by Titmuss (1958; cf. Hacker 2002). To some extent our definition of institutional welfare dualism relates to the concept of dual welfare systems that differentiates between insiders (workers) and outsiders (poor). Social protection insiders are defined as individuals covered either through comprehensive public/statutory social protection *or* those whose public/statutory entitlements are complemented or supplemented by private/occupational social protection to a level that maintains living standards. In contrast, outsiders are defined as those that would have to rely on modest (largely means-tested) public provision, primarily intended to ameliorate poverty. The concept of dualization refers to processes of deepening, widening or the establishment of new welfare dualisms.

To investigate processes of dualization over the past three decades, a clear reference point is needed. Thus, in the first section of our chapter we present a stylized history of social protection in the era of industrial welfare capitalism, before analyzing welfare during post-industrial capitalism. Industrial welfare capitalism, which prevailed in affluent democracies in the first three decades of the post-war period, was underpinned by mass employment in the manufacturing sector (cf. Wilensky 1975). During the era of industrial welfare capitalism, direct *public* provision of social policy was perceived as the core element for the realization of "social citizenship" (Marshall, 1950), social integration, or the reduction of poverty by a majority of political actors and social scientists in Western Europe. Nevertheless, labor market participation was essential for access to comprehensive social protection in both Conservative and Liberal welfare systems. Our analysis focuses on the development in two Conservative welfare systems, France and Germany, and two Liberal welfare systems, the United Kingdom and the United States. Despite full employment in France and Germany, dualism was *institutionally* embedded in the differentiation between earnings-related and means-tested social policy programs (Leibfried and Tennstedt 1985). In the UK and the US, the limited availability of occupational benefits for core workers in certain industrial sectors resulted in significant welfare divisions (Hacker 2002). Nevertheless, in both Conservative and Liberal welfare systems the social protection outsiderness declined during the era of industrial capitalism. Since the mid-1970s, de-industrialization has accelerated and led to the development of post-industrial welfare capitalism (cf. Esping-Andersen 1999) and a reversal of the trend.

Our analysis focuses on *institutional* arrangements in relation to pensions, unemployment compensation, and healthcare. Across all four countries a shift in the balance between public and private social protection arrangements has been unfolding to different degrees, which has resulted in varieties of welfare dualism. In the UK and the US, overall coverage of occupational social protection has been declining as de-industrialization has progressed, leading to a greater reliance for many individuals on government programs. In France and Germany, the coverage of social insurance has been eroding over time for the same reason and an increasing proportion of the population has become dependent upon means-tested welfare benefits. Furthermore, in certain sectors occupational welfare has either proliferated or would seem poised to expand in the future.

Dualism in the Age of Industrial Welfare Capitalism

Social Integration through Social Insurance in Germany and France

In the age of industrial welfare capitalism, continental welfare systems such as Germany and France relied on a wage-earner-centered approach to social policy to achieve social inclusion. Wage-earner-centered social policy was rooted in the belief that only the *standard* social risks of wage earners could be effectively insured. The definition of these standard risks was based on assumptions of what constitutes a "*standard* employment relationship" (Mückenberger 1985): (1) paid work is carried out as dependent work with a single employer mainly by men; (2) paid work is full time; (3) remuneration is higher than the subsistence level; (4) employment history is continuous as well as sufficiently long, at most interrupted by only short spells of unemployment; (5) the life course follows the education-work-retirement track. The standard employment relationship was not only perceived to be a normative goal, but it was also considered to be the foundation of the social insurance system. Only people unable to meet these criteria – generally through no fault of their own – would, in times of need, have to rely on tax-financed social assistance benefits.

Universitat de València - ERI POLIBIENESTAR.
Edificio Institutos-Campus de Tarongers. Calle Serpis, 29. 46022. Valencia.
Phone: (+34) 96.162.54.12– C.I.F. Q4618001-D
Email: espanet2011@uv.es

Theoretically, such a social policy design could only function as a means of social integration as long as the overwhelming majority of (male) workers were in standard employment relationships, the family model was stable, and the economy generated full employment (cf. Standing 2009). The foremost aims of German and French social insurance schemes were inter-temporal redistribution within the life course (not inter-personal redistribution), and the entitlement of derived benefits to family members. The *leitmotiv* of post-war social policy expansion was to secure the "achieved living standard" of the male breadwinner and his family during old age, disability, sickness, and unemployment.

Germany: Quasi-Universalism through Social Insurance

Historically the German welfare state was based on a two-tiered system, differentiating between workers and the poor (Leibfried and Tennstedt 1985). While the main aim of post-war social policy expansions was to maintain the "achieved living standard" through more encompassing social insurance schemes, a very small minority of the population would continue to be dependent on social assistance. Hence, although the impact of the dual structure of social protection was minimized during this period, institutionally it was never abolished.

The pension reform of 1957 is the prime example of how the social insurance system aimed to guarantee that a worker would be able to maintain the achieved standard of living during retirement. The pension reform raised the old-age benefits on average by about 65 percent and indexed them to future increases in gross wages (cf. Schmähl 1999). Subsequently, pension benefits for male workers rose sharply as a result of the generally healthy performance of the economy and negotiated wage increases in the 1960s and early 1970s. By the mid-1970s, the net-income replacement ratio reached 70 percent for a standard pensioner

(*Eckrentner*), a person with a prior average income and a work history of 45 years (Schmähl 1999: 405). This level of wage replacement symbolizes the core aim of the public old-age insurance scheme, namely to guarantee that the insured person maintains the same standard of living during retirement as enjoyed during employment. The overall success of the reformed pension insurance system was highlighted by the decreasing proportion of senior citizens dependent on social assistance (Leisering and Leibfried 1999).

Despite a long tradition, fringe or occupational benefits provided by employers played only a marginal role in insuring workers against social risks. Although a relatively high proportion of employees had some form of occupational old-age benefit coverage, the benefit amounts were rather small; the average replacement rate of occupational pension programs in the manufacturing sector was approximately 15 percent during the 1980s (Mitchell and Rojot 1992: 140).

The unemployment insurance (UI) system was normatively bound to insure the worker’s standard of living against job loss. The UI benefit was intended to replace wage income and was supposed to be clearly separate from social assistance benefits. In 1969 crucial elements of active labor market policy (ALMP) were introduced with the aim to abolish “substandard” employment. By the mid-1970s, almost 70 percent of all unemployed workers received UI benefits which were set at 68 percent of prior net earnings. This level was to ensure a relatively stable income for workers during spells of unemployment. “Suitable work” was defined in such a way that an unemployed worker practically did not have to accept a job which either paid less or was in a different occupational field to his previous job. It has to be emphasized that unemployment up to the 1970s was largely frictional and cyclical; the average unemployment rate for the period from 1964-1973 was 0.7 percent. Nevertheless, the long-term unemployed and those unemployed not qualified for UI benefits continued to depend on means-tested unemployment assistance or social assistance (Bleses and Seeleib-Kaiser 2004).

The predominance of standard employment relationships and the broad social insurance coverage of workers with benefits considerably higher than the level of subsistence significantly reduced the reliance on social assistance and thereby the effects of the institutionalized dual structure of the German welfare system. Thus, social protection outsiderness de facto became more or less residual. Statutory health insurance funds provided equitable access to health benefits and the state guaranteed access to those not insured. Leisering (2009:158) has coined this process as “the road to quasi-universalism”.

France: The True Bismarckian Welfare System

As in Germany, the post-war French welfare system has overwhelmingly relied on social insurance to achieve generous income maintenance for standard workers in case of unemployment, old age or sickness. However, it has been uniquely Bismarckian since several social insurance schemes have been self-regulated by the social partners and have been often organized on an occupational basis, thereby complementing basic *statutory* provision. This has been a feature absent from other Bismarckian systems even that of Germany.

This characteristic is best exemplified by the development of the pension system. When it was established in 1945, the statutory scheme covering all private-sector employees (called *régime général*) offered Defined Benefit (DB) pensions, but with limited replacement rates. Therefore, this first compulsory tier was complemented with occupational schemes set up through collective agreements. In 1947, representatives of management and technical staff in the private sector (“*cadres*”) negotiated the establishment of a national-level supplementary earnings-related scheme AGIRC (*Association Générale d'Institutions de Retraites des Cadres*) to top up their statutory benefits (Reynaud 1997; Friot 1998). From 1956, pay-as-you-go supplementary pension schemes were gradually extended to other categories of workers, first at the company and industry level and later at the national level, with the creation of ARRCO (*Association des Régimes de Retraite Complémentaire*) in 1961 and the extension of supplementary schemes to all private-sector companies in 1972. Once it reached maturity, the French mix of statutory and supplementary pay-as-you-go pensions was able to offer very high net replacement rates and contributed to decreasing the number of recipients of the *minimum vieillesse*, a special social assistance scheme for the elderly created in 1956. Thus, in 2001, private-sector workers born in 1934 and who had a full contributory record at retirement received on average 83 percent of their previous earnings, when combining benefits from *régime général* and ARRCO/AGIRC (DREES 2004).

The development of unemployment compensation also illustrates the reliance on statutory and non-statutory social protection in the post-war French welfare system. In 1958 the social partners negotiated a national-level collective agreement establishing a non-statutory unemployment insurance ("*UNEDIC*") covering all firms belonging to the main employers' association, the CNPF (Conseil National du Patronat Français). Similarly to AGIRC, UNEDIC was managed by the social partners who had decision-making power over adjustments to benefits and contributions, but the state contributed to extend coverage by UNEDIC to all private-sector workers in 1967. UNEDIC benefits served to supplement unemployment assistance, which provided flat-rate benefits with unlimited duration after a means test and, since 1967, a 3-month basic income to all unemployed workers. UI benefits have traditionally been earnings-related and until the end of the 1970s the duration of benefits depended on workers' age rather than on their contributory record (Daniel and

Tuchszirer 1999). In 1976, when combined with unemployment assistance benefits, unemployment compensation could offer a 72.4 percent replacement rate for minimum wage workers and a 90 percent replacement rate for workers laid-off for economic reasons (Daniel and Tuchszirer 1999: 251).

A majority of private-sector workers and their dependents were insured against health-related risks by the *régime général* since its inception in 1945. Those individuals who were not covered by the *régime général* or other statutory health insurance funds could join "voluntary" insurance schemes. Because the majority of such individuals were poor and were out of work, the state decided to partly subsidize their contributions beginning in 1967. However, even if coverage was large, benefit levels offered by statutory health insurance were limited, since co-payments of 20 percent were introduced as early as 1945 and were subsequently further increased, thereby opening up a market for supplementary private health insurance.

During the age of industrial welfare capitalism, the large majority of French standard workers could benefit from generous social protection, due to basic statutory benefits topped up by social insurance benefits introduced via the industrial relations system. Thus, despite the existence of various social assistance schemes, the degree of social protection outsiderness was rather small.

The Dual Structure of Liberal Welfare Systems

Welfare dualism has been most prevalent in the UK and in the US where employer-provided benefits have been used to supplement and complement public social policies. Private welfare provision sits awkwardly with the comparative literature's relatively narrow characterization of social protection in the UK and the US as minimalist with a heavy reliance on means-testing (Esping-Andersen 1990; Estévez-Abe et al. 2001). The inclusion of occupational benefits provides a far more holistic picture of the kind of welfare dualism which has prevailed in Liberal welfare systems. In particular, it helps to reveal the extent to which American and UK insiders have been protected against social risks at a level similar to their counterparts in Bismarckian welfare systems (Brown 1999: 166). Due to long periods of job tenure, occupational social protection can be considered as a functional equivalent to social insurance guaranteeing the achieved standard of living. Job tenure was particularly high in many production industries and high value-added service industries. For instance, in 1968 average job tenure in the UK was 28 years in the Insurance, Banking and Finance industries, 26 years in the Mining and Quarrying industries and 23 years in the automotive industry (Main 1982: 329).

America's Three Pillars of Welfare: Social Assistance, Social Insurance and Occupational Welfare

The US is usually considered a welfare state laggard, with a heavy reliance on means-tested programs. Nevertheless, it has to be stressed that public social insurance programs have witnessed significant expansions in the era of industrial welfare capitalism. Although Social Security and UI initially were quite limited in coverage, they increasingly insured an ever larger proportion of workers. In the mid-1970s, about 90 percent of all full-time workers were covered (Seeleib-Kaiser 2001: 272). Nevertheless, compared to the replacement rates achieved in France and Germany, the wage replacement rate was rather modest at approximately 50 percent for the average worker in both programs (Hacker 2002: 143; Vroman 1990: 20). Furthermore, the poor had to rely on means-tested welfare programs, such as AFDC or state-run General Assistance.

Although the extent of welfare dualism declined through the parallel expansion of occupational welfare during the age of industrial welfare capitalism, it continued to be a major feature of the US welfare system. At its peak only about 70 percent of the workforce had occupational healthcare coverage and occupational pension coverage barely surpassed 50 percent in the late 1970s (see Figure 1). The overwhelming majority of occupational pensions were DB plans and the average replacement rate for workers formerly employed in the manufacturing sector was 42 percent during the 1980s (Mitchell and Rojot 1992: 140). Despite these achievements, coverage differed significantly by industry. In 1979, 79 percent of the workers in the automobile industry and 9 percent of workers in the hospitality sector were covered by occupational pensions (Kotlikoff and Smith 1983: Tables 3.2.9 & 3.2.10).

[Insert Figure 1 about here]

Supplemental Unemployment Benefit (SUB) plans, occupational programs which provided workers with payments in addition to UI, were largely limited to the automobile, rubber and steel industries. By the late 1960s, the automobile industry had the most generous SUB payments which, in conjunction with UI, replaced a worker's previous weekly earnings as much as 95 percent for 52 weeks (Skolnik 1976: 20).

Although occupational welfare provision became a "social obligation" for many employers during the era of industrial welfare capitalism (Allen 1969), a declining, but significant proportion of the American workforce continued to lack social protection at a level providing the achieved living standard. Only America's core labor market insiders had access to social protection at comparable levels to their counterparts in Continental European countries.

Between Universalism and Dualism: The UK Case

The UK welfare system has been composed by an amalgamation of universal, social insurance, means-tested and occupational social policies. Since the National Health Service (NHS) has provided universal access to healthcare, the two main pillars of the post-war social insurance system have been pensions and unemployment compensation. While a distinction was made between contributory-based social insurance and means-tested social assistance, pension and unemployment benefits were provided on a flat-rate basis for a significant proportion of the post-war period. The absence of an earnings-related link meant that the UK differed considerably from France, Germany and the US. During the postwar period, this void was increasingly supplemented by occupational schemes (Cutler et al. 1986: 44; Russell 1991: 128).

As growing numbers of contributory-based pension recipients without occupational benefits required means-tested supplements, the inadequacy of flat-rated provision and occupational voluntarism became apparent (Williamson and Pampel 1993: 52). The impoverishment of pensioners was addressed by the establishment of a two-tiered pension system in 1959. A universal Basic State Pension (BSP) was now supplemented by the earnings-related State Graduated Retirement Pension Scheme (SGRPS) for those with higher incomes (Williamson and Pampel 1993: 54; Blake 2003: 13). The reform also enabled members of occupational pension schemes to contract out of SGRPS (Hannah 1986: 57). In 1975, the earnings-related element was bolstered by the creation of the State Earnings-Related Pension Scheme (SERPS), providing a maximum supplementary benefit of 25 percent based on one's highest earnings during the final 20 years of employment (Blake 2003: 15).

Nevertheless it was the receipt of occupational benefits which increased the probability of income protection at a level that maintained the achieved living standard. By

1967, 53 percent of the national workforce was entitled to occupational pension benefits, which were typically final salary schemes (GAD 1994: Table 2.1) and provided a gross replacement rate of 70 percent for the standard wage earner with 40 years of employment (Blake 2003: 170). Notable differences existed by gender and industry. While 93 percent of men employed in the mining industry were enrolled in occupational pension plans, only 13 percent of women employed in the wholesale and retail sector were covered in 1970 (Russell 1991: 211).

Like state pensions, post-war Unemployment Benefit (UB) was underpinned by a similar tension between being a contributory social insurance program yet one which provided flat-rate benefits. In 1965, the government introduced statutory redundancy payments which provided the involuntarily unemployed with additional compensation beyond their National Insurance entitlement. This was followed in 1966 by the creation of an Earnings-Related Supplement (ERS) to contributory-based UB designed to support the incomes of higher earners (Clasen 1994; Saunders 2009). This legislation also prompted an expansion of extra-statutory redundancy pay schemes in private sector firms during the 1960s and 1970s (Root 1987). The most generous of such provisions predominated in the steel and coal mining industries (Fevre 1987: 66 – 69, Root 1987: 21). Redundancy pay became a key factor of institutional welfare dualism for the unemployed.

Britons employed in production industries and high value-added services notably had access to *both* earnings-related social insurance and occupational benefits. Consequently, many UK insiders had access to a comprehensive set of welfare entitlements during this period. Due to the significant expansion of both public and private social protection measures, the degree of social protection outsiderness declined significantly during the era of industrial welfare capitalism.

Dualization in an Age of Post-Industrial Welfare Capitalism

Since the mid-1970s all four welfare systems have undergone significant transformations. Institutional welfare dualism has widened and deepened in Germany especially in relation to France, where social protection has remained *comparatively* less bifurcated. In the UK and the US, we witness once again an increase of social protection outsiders in pensions largely as a result of declining occupational coverage. In the realm of unemployment protection dualism has widened and deepened in the UK, France, and Germany, whereas in the US the extent and depth of dualism has remained relatively constant. With regard to healthcare, the large role played by private insurance in the United States and France has continued to entrench welfare dualism in these countries, although some efforts have been made to reduce it.

The Shifting Public-Private Balance in Pensions

Germany

Future pension entitlements in Germany will increasingly resemble those in the UK and the US, especially due to the Pension Reform of 2001, which introduced a partial privatization of the statutory earnings-related pension system. Important elements of this reform were a significant reduction in future replacement rates and the introduction of public subsidies for certified private and occupational pension schemes. The net replacement ratio for a standard pensioner will decline from about 70 percent to 52 percent by 2030, forcing once again an increasing reliance on means-tested old-age benefits for those with insufficient occupational or individual private coverage. Workers contributing the maximum amount for which they can receive tax relief to private individual or occupational plans are “promised” a retirement income of 70 percent of their previous wage (Schmähl 2007). This change in policy has triggered an increase in occupational pension coverage, predominantly based on the principle of Defined Contributions (DC). As shown in Table 1, the coverage of occupational pensions in the private sector has risen from 38 percent (2001) to 52 percent (2007). However, stark differences in coverage rates can be seen for instance between individuals employed in financial intermediation with especially high levels of participation, manufacturing with medium to high levels and hospitality and food services with relatively low levels of coverage.

[Insert Table 1 about here]

France

Although the French public pension system was retrenched, it has remained relatively more resilient to private encroachment. In the private-sector employees' statutory pension scheme (*régime général*), reforms legislated in 1993, in 2003 and in 2010 have shifted the indexation of benefits from wage inflation to price inflation, and have also extended the reference wage used to calculate benefits and the contributory period needed for a full pension from 37.5 years in 1993 to 41.5 years by 2020 (Mandin and Palier 2005; Bonoli and Palier 2007). Since the mid-1990s, current and future pensioners have also been affected by changes in the indexation of the AGIRC/ARRCO schemes which have led to reductions in the purchasing power of benefits (Naczyk and Palier 2010). According to projections (COR 2007: 64) and depending on indexation assumptions in AGIRC and ARRCO, the net replacement ratio will decline from about 83.6 percent for a standard worker retiring in 2003 to about 76.8 percent in 2020 and 73.5 percent (based on optimistic assumptions) or 64.4 percent (based on pessimistic assumptions) in 2050.

To date, funded occupational pensions have played a minor role in France. Only a limited number of funded pension schemes exist at the firm level. Their distribution is very unequal and mostly advantages high-earners. Funded DB plans have been offered mainly to top executives in large companies, while DC plans, which are more encompassing in terms of coverage, have been mainly limited to large companies (Naczyk and Palier 2010). Firm-level DC schemes (called Art. 83) have been expanding in recent years. Approximately 12.3 percent of workers were covered by such plans in 2006 (DREES 2010) compared to 8 percent in 2004 (DREES 2006).

The United States

In parallel to the reduction of benefit generosity under the Social Security Act of 1983 (Munnell 2009: 18), occupational pension plans came under growing strain. Overall coverage declined significantly, especially for workers employed in low value-added industries. While in 1979 50.6 percent of workers[2] were covered, the coverage rate declined to 43.7 percent in 1989. In 2006, only 42 percent of workers were enrolled in occupational pension plans (Mishel et al. 2009). Coverage differs significantly by sector. Workers employed in manufacturing and financial services are much more likely to be covered, compared to workers in low value-added sectors, such as hospitality and food services (Bureau of Labor Statistics 2008: Table 2.5). Secondly, the majority of employer-provided pensions have shifted from DB to DC plans (Mishel et al. 2009).

However, reductions in generosity were countered, if only temporarily, by rising pension fund assets during the stock market booms of the 1990s and the 2000s. Congress

[2] Private sector, wage and salary workers age 18-64, who worked at least 20 hours per week and 26 weeks per year.

committed itself to supporting the public pension system during the credit crisis and recession of 2008 – 2009 as losses in pension savings mounted. In February 2009, the American Recovery and Reinvestment Act introduced a supplement to Social Security recipients to partially compensate for shortfalls in personal retirement income (CongressNow 2009). To some extent the recent policy changes demonstrate the limits of a liberalization strategy and emphasize that the state has the ultimate responsibility for pensions.

The United Kingdom

Since the 1980s, reform of the UK public pension system has led to a significant decline in state benefits. The 1986 Social Security Act reduced the real value of SERPS to 20 percent of "pensionable earnings" and created incentives for individuals to opt out of the state scheme in order to enroll in personal or occupational alternatives (Creedy and Disney 1988: 61). By 2002, SERPS were replaced by the State Second Pension and became a fully flat-rate benefit by 2007. However, more importantly overall occupational pension coverage has significantly declined over the past decade, with only 37 percent of the workforce in the private sector covered in 2008. As in Germany and the US, coverage differs widely by industrial sector, with rates of high coverage in financial intermediation, medium coverage in manufacturing, and a low level of coverage in the hospitality sector (see Table 2). As in the US, the UK has witnessed a shift from DB to DC plans.

[Insert Table 2 about here]

As the percentage of insiders with occupational scheme coverage has declined, the UK has embarked on significant pension reform. In general, these changes will improve the access to and benefit levels of the private as well as public schemes and thereby contribute to an increased overall adequacy of replacement rates. Based on the Pensions Act of 2007 the necessary contributory periods for a full Basic State Pension will be reduced from 44 years for men and 39 years for women to 30 years for everyone retiring on or after April 2010. In the medium-term the government will reintroduce earnings up-rating. A second reform to be implemented from 2012 is aimed at reversing the process of dualization in occupational pension coverage, as all workers with an income above a minimum threshold will be automatically enrolled into a qualifying workplace pension with an option to opt out. These two pension reforms to some extent reverse the previous strategy based on liberalization and voluntarism.

Comparing Pension Dualism

In Germany, the UK and the US pension dualism has significantly widened over the last decades, whereas in France the process has been so far more limited. It is very likely that the proportion of poor pensioners (social protection outsiders) in Germany will increase significantly as the result of the significant reductions in the replacement rate and the low occupational coverage of workers employed in low value-added sectors. Both in the UK and the US, the percentage of old-age social protection outsiders will increase, due to the significant decline in occupational coverage. The depth of welfare dualism becomes apparent when prospective replacement rates derived from public and occupational pension systems are examined for current workers. Based on OECD simulations, the average American worker enrolled in an occupational pension plan will have the highest replacement rate amongst the four countries. The average worker reliant solely on the public pension system will have the lowest replacement rate in the UK and the highest in France, whilst a pensioner dependent upon a means-tested minimum income will be the worst off in Germany. Comparing the gross replacement rate of the public systems with the combined gross replacement rate of public and voluntary occupational pensions, the depth of welfare dualism is highest in the US (see Table 3).

[Insert Table 3 about here]

Dualizing the Unemployed

Germany

Since the late 1970s, the German UI system has seen incremental changes which have limited the access to unemployment insurance benefits for prime-aged workers. However, the de-commodification of older workers was significantly increased through the extension of benefit duration for older workers from 12 to 32 months in the mid-1980s. Among prime-age workers the objective of status preservation was in effect increasingly restricted to the short-term unemployed, whilst a process of re-commodification and workfare came to dominate the unemployment and social assistance schemes (Neyer and Seeleib-Kaiser 1995). For these social protection outsiders, ALMP was increasingly used to test the willingness to work and to provide temporary and "substandard" work instead of promoting re-integration into standard employment relationships. The Labor Promotion Reform Law of 1997/98 vastly curtailed the ability of those receiving UI benefits to be selective in their choice of prospective employment opportunities, as the duration of unemployment progresses (Bieback 1997).

In late 2003, the federal government enacted a comprehensive reform of unemployment compensation payments. According to the new rules, the regular “Unemployment Compensation Payment I”, i.e. the earnings-related UI benefit, was limited to a maximum of 12 months.[3] Individuals who have either exhausted their UI benefit and are needy or needy unemployed workers who do not qualify for the Unemployment Compensation Payment I are entitled to the “Unemployment Compensation Payment II”. Unlike the “old” unemployment assistance benefit this new payment constitutes a flat means-tested benefit. Consequently, this reform resulted in substantial benefit reductions for those long-term unemployed workers who had previously commanded a comparatively “high” income. Furthermore, the suitability requirements have been considerably tightened for those receiving the Unemployment Compensation II benefit, in effect defining any legal job offer as suitable (cf. Seeleib-Kaiser and Fleckenstein 2007). While the changes for the majority of short-term unemployed were rather minimal, the significant cutbacks for the long-term unemployed have deepened institutional welfare dualism. As the percentage of the long-term unemployed and those with insufficient contributory periods due to atypical employment have increased over time, we also witness a stark widening of institutional welfare dualism among the unemployed.

France

Since the 1980s, reforms in unemployment compensation have resulted in an increasingly dualized pattern of social protection (Daniel and Tuchszirer 1999; Clegg 2007; Palier 2010). Whilst core workers with longer contribution records have continued to be relatively well

[3] Workers above the age of 58 are currently entitled to a maximum benefit duration of 24 months instead of the previous 32 months.

protected, workers with shorter contribution records have been forced to rely on social assistance. They have also been most targeted by activation measures which, like in Germany, have mostly provided temporary and "substandard" work (Clegg 2007). From 1979, the level of an individual's UI benefits was gradually decreased with time spent in unemployment. In 1982, benefit levels were tied to the duration of prior contributions, whilst in the past they had depended mainly on age. Dualism was institutionalized when, in 1984, unemployment insurance and unemployment assistance were separated and the possibility to accumulate both was eliminated. Retrenchment has also occurred in unemployment assistance, since young workers and lone mothers were no longer eligible for the *allocation d'insertion* from 1992. Indexation in the main unemployment assistance benefit – ASS (*Allocation de solidarité spécifique*) – was suppressed beginning in 1994, but was later partially compensated. These developments and mass unemployment led to a heavy reliance of the unemployed on the national social assistance scheme (RMI) created in 1988 and replaced in 2009 by the *revenu de solidarité active* (RSA) which introduced a negative income tax for newly employed recipients of social assistance. However, reforms agreed to by the social partners between 1996 and 2002 led to small improvements in access to UI benefits. In particular, the link between prior contributions and the generosity of benefits was loosened and the eligibility criteria for workers with incomplete contributory records made more inclusive. A reform negotiated in 2009 led to an extension of benefit duration.

The United States

Historically, the American UI system has made a fundamental distinction between those unemployed individuals whose labor market participation has entitled them to benefits and those who lack of it has made them altogether "undeserving", which is reflected in the continuously low UI beneficiary rate among the unemployed. Compared to the UK, France, and Germany the U.S. UI system has experienced comparatively fewer changes since the demise of industrial welfare capitalism during the 1970s and 1980s. The most notable feature of the American system has been extensions to benefit duration during periods of high unemployment, providing extended and supplemental benefits for up to 65 weeks during the mid-1970s and 99 weeks during the 2008 – 2010 recession (Vroman 1990: 19; Luo 2010; cf. Figure 2). Although such provisions declined during the 1980s, Extended Benefits have continued to play an important role for insiders who have exhausted their regular benefit entitlements during economic downturns. The government's role in providing extended insurance to the unemployed has become more important as occupational provisions such as supplemental unemployment compensation plans have become even more peripheral.

The United Kingdom

One of the first successful retrenchment policies of the Thatcher government was the discontinuation of the Earnings-Related Supplement (ERS) to unemployment insurance. Restrictions over benefit receipt tightened during the 1980s and 1990s as successive Conservative governments made a concerted effort to link benefit payments to retraining and the active search for work for all claimants (King 1995: 170). In 1996, UB was transformed into a Job Seeker's Allowance (JSA). JSA created a flat-rate contribution-based benefit and a means-tested benefit. Whereas the benefit duration of the contributory benefit was reduced from 52 weeks to 26 weeks, the duration of the means-tested benefit continues to be in principle indefinite (Clasen 2010). Since the mid-1990s, a significant decline in the percentage of the unemployed receiving contributory benefits can be observed (Figure 2). Despite these liberalizing policies, which ended the previous duality in benefit provision generated by graduated and earnings-related schemes, welfare dualism for the unemployed has persisted as many insiders have been able to supplement paltry JSA benefits with both public and private redundancy pay provisions.

Although statutory redundancy pay had been aimed at lower earners when it was originally introduced in 1965 (Clasen 1994: 76), eligibility criteria based on job tenure has prevented many unemployed from benefit entitlements. Whilst a mere 24 percent of the UK's unemployed received redundancy pay in 1973, this figure would only rise to 36 percent in 1981, a year with exceptionally high unemployment.[4] Since the mid-1990s the rate has fluctuated between 23 percent and 35.[5] Core labor market insiders continue to be entitled to extra-statutory redundancy payments based on collective bargaining agreements or unilaterally determined by management, as the overwhelming majority of large employers continue to offer these benefits (Booth 1987; Clasen 2010). However, sectors that traditionally offered very generous extra-statutory redundancy payments, such as mining and quarrying, have seen a significant decline of employment over the past three decades, which suggests that the overall coverage of unemployed workers receiving this benefit has also declined.

Comparing Social Protection Dualization for the Unemployed

The dualization of unemployment protection has taken different paths in each country. Although the percentage of contributory benefit claimants as a percentage of total unemployed in the UK has historically been similar to the low levels in the US, we have witnessed a significant decline since the 1980s. However, unemployment protection dualism in

[4] Authors' calculations of figures provided by Booth (1987: 403) and OECD Stat harmonized unemployment data.

[5] Authors' calculations of UK Labour Force Survey data.

the UK since the mid-1990s is largely a function of those receiving statutory or extra-statutory redundancy benefits and those that have to rely on low flat-rate state benefits, as the ERS was abolished. In the US policies have historically differentiated between those short-term unemployed entitled to earnings-related benefits and the long-term unemployed with very residual or no support, demonstrating a clear institutional welfare dualism (Fig. 2).

Germany has witnessed a widening of dualism, as the percentage of UI claimants among the unemployed has been in steep decline since unification, dropping below US levels since 2006. Furthermore, as benefit levels for the long-term unemployed have been significantly reduced, we have witnessed a deepening of dualism. Dualization in Germany is especially striking when compared to developments in France where, following a process of dualization during the mid-1980s and the early 1990s, the percentage of UI recipients has once again increased markedly in the late 1990s and early 2000s, before once again declining.

[Insert Figure 2 about here]

Inequalities in Healthcare

Germany and the United Kingdom

In both Germany and the UK, healthcare coverage has continued to be universal. As a consequence, the role of private health insurance has remained relatively negligible. According to the OECD (2004: 50, 52), in 2000 only 9 percent of the German population and 10 percent of the UK population were covered by private health insurance schemes. Such arrangements are typically preferred by high income individuals and not by a majority of insiders in the two countries.

France

Since the end of the 1970s, co-payments have been gradually increased, reaching 30 percent for medical consultations and 35 percent or 65 percent for drugs in 1993 while a flat-rate hospital fee was introduced in 1982. As a result, private supplementary health insurance has played an increasing role in health expenditure and covered approximately 85 percent of the French population in the 2000s, compared to 50 percent in the 1970s. Workers are either covered by individual private plans or by occupational plans, negotiated at the company level which can be mandatory or remain voluntary. In general, occupational plans, which pool risk, are more generous, particularly for dental care and eye care, than individual plans (DREES 2008). Mandatory occupational plans similarly offer better guarantees than voluntary occupational plans (IRDES 2006). In 2006, approximately 61 percent of workers obtained supplementary health insurance through a firm-level plan. Coverage varies with skills and industry; while 77 percent of management and technical staff ("cadres") were covered by compulsory occupational plans, this was the case for only 44 percent of employees in the retail industry (IRDES 2008).

The introduction of a specific health insurance scheme for the poor aimed at universalizing health care coverage in France (*CMU*, see Palier 2005a; 2005b), which offers free statutory health insurance for recipients of social assistance and free supplementary health insurance for individuals falling below a certain income threshold (634 Euros in 2010), has not solved inequalities in access, as this free supplementary health insurance does not cover all fees, and individuals who are not claimants of social assistance benefits and whose income is higher than the CMU threshold continue to be excluded from such schemes (IRDES 2008). Moreover, beneficiaries of the CMU are significantly more likely to be refused treatment, when they present themselves as CMU recipients, thereby potentially deepening social divides (Chadelat 2006; IRDES 2009).

The United States

One of the major developments in US healthcare coverage has been the decline in employer-provided plans. While 69 percent of all workers were enrolled in employer-provided healthcare plans in 1979, the percentage declined to 55 percent in 2006 (Mishel et al. 2009). As might be expected, coverage among the various sectors of the economy is very unequal, with high coverage in the utilities, manufacturing, finance and low coverage in retail and the hospitality sectors (see Table 4). The percentage of those not covered has subsequently risen to almost 16 percent of the population in 2006 (DeNavas-Walt et al. 2007: 58).

[Insert Table 4 about here]

As occupational healthcare coverage has declined over the past three decades, the government has expanded *public* healthcare coverage, especially through the expansion of Medicaid and the introduction of the *State Children's Health Insurance Program* (S-CHIP). The federal government has also strengthened the regulatory framework for unemployed workers previously covered by occupational healthcare plans. In 1985, Congress introduced legislation, known as COBRA, which continued occupational health insurance for unemployed workers followed by an additional provision in 1996 that enabled workers to maintain their healthcare coverage when changing employers (Seeleib-Kaiser 2001: 329; Hacker 2002: 258). The 2009 Recovery Act provided further COBRA funding, subsidizing nine months of health insurance to UI recipients (Solis 2009). Healthcare reform became a focus of the Obama Administration and resulted in the 2010 healthcare act, which should eventually extend healthcare coverage to some 30 million uninsured Americans. In doing so, it will cover an additional 16 million individuals through the nation's means-tested Medicaid program and financially support the participation of millions of low and middle earners in private health insurance plans (Stolberg and Pear 2010).

It is important to highlight the limitations of the US liberal approach to healthcare which has eventually triggered greater government intervention, providing better access to healthcare for the previously uninsured. In France government intervention has been limited to protect the poor and working poor, thus not making access to healthcare fully equitable. Whether the 2010 healthcare reform in the US will *fully* eliminate the dualism in access to healthcare can only be assessed in the future.

Conclusion

Analyzing institutional welfare dualism in all four countries during the periods of industrial and post-industrial welfare capitalism has highlighted the importance of taking into account *private* and *public* social policy. Private social protection can under specific conditions constitute a functional equivalent of public social protection for certain workers and result in a profound bifurcation of welfare. It has to be emphasized that institutional welfare dualism is not new and has been a constituent part of Liberal *and* Conservative welfare systems. All four countries have witnessed processes of dualization, although different in their breadth and depth in the various social protection domains, during the era of post-industrial welfare capitalism.

In both Liberal countries occupational pension coverage (and in the United States healthcare coverage) increased during the era of industrial welfare capitalism. At the height of this period private social protection in the UK and the US significantly supplemented minimal to moderate public social protection during old age, covering more than 50 percent of the workforce. Occupational healthcare coverage reached almost 70 percent of the American workforce during the late 1970s. Although supplemental occupational unemployment protection was also available for workers in core manufacturing industries, the overall coverage of the workforce was rather minimal. For those covered, however, the provision was roughly similar to public provision in France and Germany, especially for those American and UK workers employed in standard employment relationships, which applied to most of the industrial workforce. The key difference between the two Liberal and two Conservative welfare systems was that, a substantial percentage of the workforce in the Liberal economies did not have sufficient coverage for certain social risks even at the height of industrial welfare capitalism and institutional welfare dualism was quite deep. In contrast, in France and Germany the percentage of those excluded from social insurance protection was rather small and public policy was geared towards including all employees into the social insurance systems, thereby reducing institutional welfare dualism.

Since the mid-1970s and with accelerating speed since the mid-1990s the inclusionary process in France and Germany was reversed and subsequently has led to a widening and deepening of institutional welfare dualism, especially in Germany. For significant proportions of workers in financial and manufacturing industries the reduction in public old-age social protection coverage has been mitigated by an expansion of occupational coverage in Germany.

Conversely, a very large proportion of workers employed in the hospitality sector will have to rely solely on the public system, which for many future retirees will no longer provide a pension sufficient to secure the achieved standard of living. In the UK and the US the most important changes have occurred in the coverage of occupational pension programs. This has led to a widening of dualism and an increase of outsiders, as fewer pensioners will be able to rely on employer-provided benefits maintaining the achieved living standard. Although affecting most workers, the decline in coverage has been most dramatic for workers employed in low-value added sectors. Recent legislation in both countries was designed to counteract the declining occupational coverage, demonstrating the limits of liberal approaches to welfare based on voluntarism.

With regard to the risk of unemployment, processes of dualization have been most pronounced in the UK and Germany. Whereas in the UK unemployed workers in high-value added sectors can rely on extra-statutory redundancy payments sufficient to maintain their standard of living during short spells of unemployment, most workers can no longer rely on earnings-related benefits, but have to cope with benefits at the social assistance level. In Germany unemployment insurance benefits for the short-term unemployed still secure the achieved standard of living; however the majority of the unemployed, i.e. those with insufficient work histories to qualify and the long-term unemployed, have become reliant on benefits at the social assistance level. In the US welfare dualism in the domain of unemployment has historically been very prevalent and has not substantially changed over time, as even during industrial welfare capitalism only a very limited number of workers were entitled to Supplemental Unemployment Benefits provided by employers.

Within the domain of healthcare coverage institutional welfare dualism has been limited largely to the US, although there has been some prevalence of welfare dualism in

France, with relatively high co-payments for those workers not covered by supplementary plans. The US has witnessed a significant decline in occupational healthcare coverage. Again welfare dualism primarily seems to occur along sectoral lines, with workers in the retail sector having the lowest level of coverage. In the US, the Obama government has introduced policies to limit institutional dualism. In France, the introduction of a universal health insurance for the poor entrenches dualism. In the UK and Germany access to healthcare coverage has continued to be more or less universal.

To conclude: Welfare dualism is not new and has been especially prevalent in Liberal welfare systems, primarily due to the importance of supplemental and complementary occupational social protection. Although social protection outsiderness has increased in all four countries during the era of post-industrial welfare capitalism, the breadth and depth of the dualization processes differ between countries and along social policy domains within countries.

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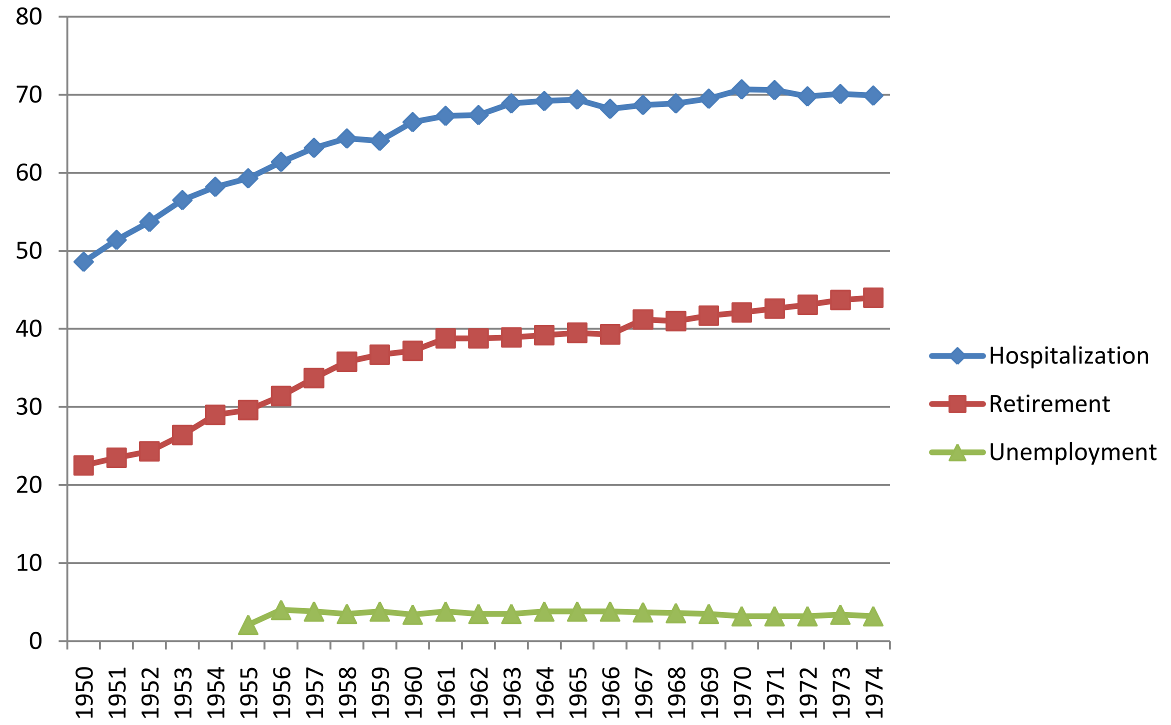
Fig. 1: Occupational Social Protection Coverage in the US: 1950-1974



Note: Hospitalization: Percent of all wage and salary workers; Retirement and Unemployment: Percent of wage and salary workers in private industry.

Source: Skolnik 1976: 7.

Table 1: Percentage of Employees in the German Private Sector Covered by Occupational Pension Plans by Industry (2001 –2007)

Industry	2001	2003	2005	2007
Manufacturing				
Production/Intermediate Goods	43%	55%	73%	74%
Consumer Durables	58%	59%	62%	62%
Food, Alcohol & Tobacco Goods	30%	57%	62%	61%
Consumer Goods	24%	39%	53%	53%
Mining, Quarrying & Energy	63%	72%	71%	73%
Construction	22%	30%	37%	42%
Services				
Financial Intermediation	76%	83%	89%	90%
Wholesale/Retail & Repair	27%	39%	47%	46%
Real Estate & Business Services	16%	25%	28%	29%
Hospitality and Food Services	10%	25%	26%	28%
Total Private Sector Coverage	38%	45%	52%	52%

Source: TNS Infratest Sozialforschung, *Situation und Entwicklung der betrieblichen Altersversorgung in Privatwirtschaft und öffentlichem Dienst 2001 – 2007*. [The Situation and Development of Occupational Pensions in the Private Sector and Public Service, 2001 – 2007], Untersuchung im Auftrag des Bundesministeriums für Arbeit und Soziales, Endbericht, München: 30. Oktober 2008: 42.

Table 2: Percentage of Employees in the UK Private Sector Covered by Occupational Pension Plans by Major Industry Group: 1998 – 2008

Industry	1998	2000	2002	2004	2006	2008
Manufacturing	57%	57%	61%	58%	57%	53%
Mining, Quarrying & Energy	85%	83%	82%	78%	83%	79%
Construction	37%	31%	42%	39%	36%	34%
Services						
Financial Intermediation	77%	82%	80%	80%	81%	77%
Wholesale/Retail Trade & Repair	40%	42%	41%	34%	32%	29%
Real Estate, Renting & Business Services	39%	38%	45%	40%	38%	36%
Hospitality & Food Services	16%	13%	12%	13%	9%	8%
Total Private Sector Coverage	45%	45%	47%	43%	41%	37%

Source: Authors' calculations derived from the Annual Survey of Hours and Earnings (ASHE) Pensions Analysis Tables (1997 – 2008), Office for National Statistics.

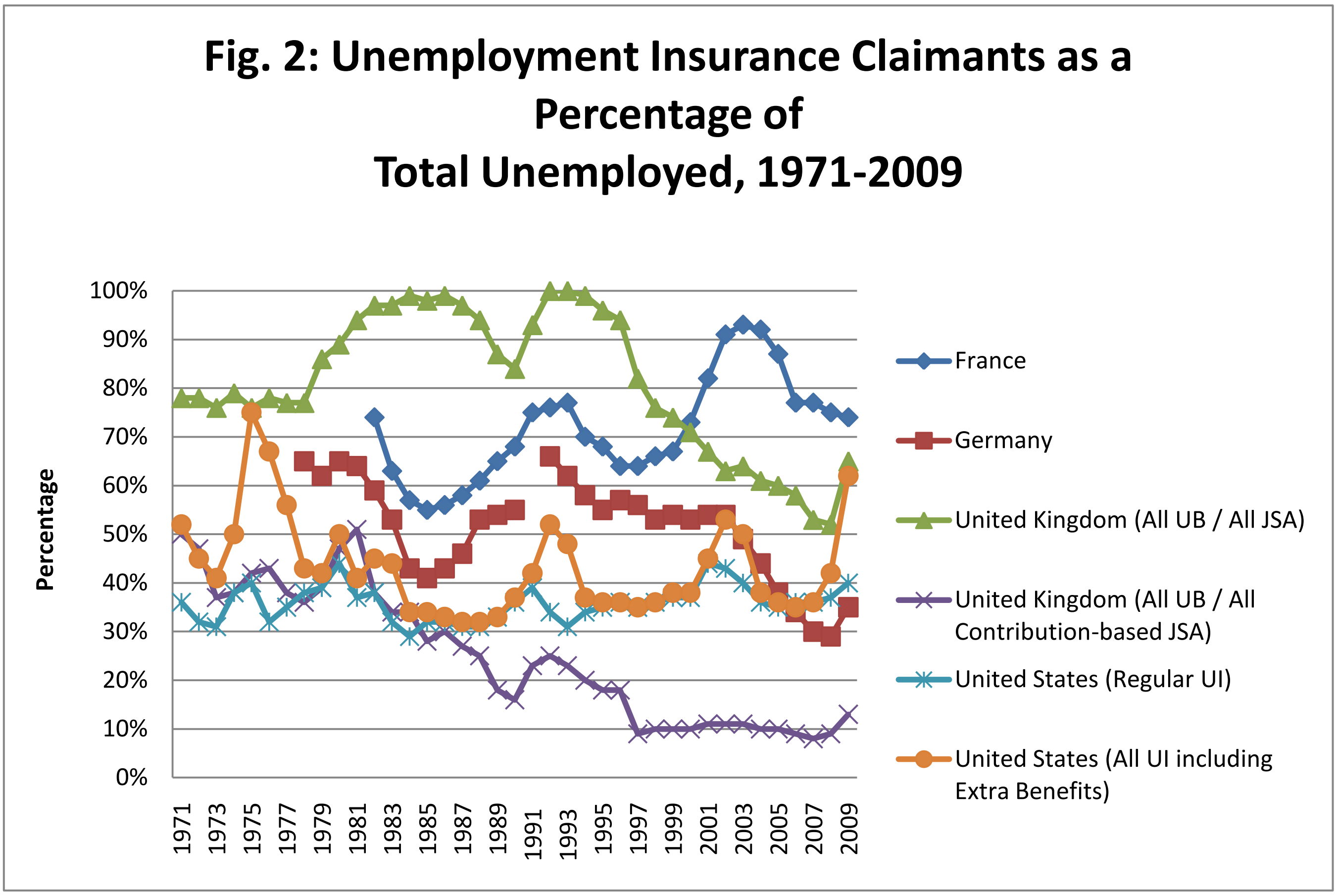
Table 3: Prospective Pension Minima and Replacement Rates for Current Workers (2004 Baseline)

Country	Minimum Income for Pensioners as % of Average Earnings	Gross Replacement Rate of Public System (AW)	Net Replacement Rate of Public System (AW)	Gross Replacement Rate of Public and Voluntary Occupational Pensions (AW)
France	24.0	64.7	78.1	N/A
Germany	19.3	39.9	58.0	56.0
United Kingdom	20.0	30.8	41.1	67.0
United States	22.0	41.2	52.4	81.2

Note: Minimum income provisions are based on means-tested programs available to pensioners. All replacement rates are based on the assumption of a full career. Gross replacement rates of public and voluntary occupational/private pensions are based on assumed contribution rates of 9 percent (currently the mean) in the United Kingdom and the

United States. For Germany the assumed contribution rate is 4 percent, currently the maximum contribution to receive the full tax incentive.

Source: OECD (2007) *Pensions at a Glance.* Paris: OECD.



Note: The average annual number of unemployed is based on comparable labor force surveys as reported by the OECD and hence might differ from national definitions of unemployment; the average annual number of claimants is derived from national administrative statistics.

There is a break in the Germany data because of unification.

Sources: Authors' calculations of OECD Labour Force Statistics for 'Harmonized Total Unemployment'; BMAS (2010) Statistisches Taschenbuch 2010, Arbeits-und Sozialstatistik, Berlin: BMAS; Assedic 'Bénéficiaires en fin de mois'; 'Claimant Count – Seasonally Adjusted', Nomis, UK Office for National Statistics; Archived data, Department for Work and Pensions (DWP); Work and Pensions Longitudinal Study, DWP; UI Weekly Claims Reports, US Department of Labor (DOL), Current Population Survey, US Bureau of Labor Statistics, DOL.

Table 4: Percentage of US Employees in the Private Sector Covered by Health Insurance by Industry Group, 2008

	Health Insurance Coverage
Industry	
Manufacturing	75%
Utilities	84%
Construction	56%
Services	
Finance & Insurance	70%
Wholesale Trade	71%
Retail Trade	41%
Real Estate & Rental & Leasing	52%
Hospitality & Food Services	24%

Source: 'National Compensation Survey', Bureau of Labor Statistics, Department of Labor, March 2008: Tables 2, 5.

Universitat de València - ERI POLIBIENESTAR.
Edificio Institutos-Campus de Tarongers. Calle Serpis, 29. 46022. Valencia.
Phone: (+34) 96.162.54.12– C.I.F. Q4618001-D
Email: espanet2011@uv.es